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ABSTRACT

This report is a collection of five state case studies comprising a major component of the first phase of the project, "Changing Direction: Integrating Higher Education Financial Aid and Financing Policies." The project explored state-level strategies to better align financing and financial aid policies and support more informed decision making on issues surrounding financial aid and financing in higher education. These case studies of Arizona, Connecticut, Florida, Missouri, and Oregon were designed to equip policymakers and higher education leaders from all sectors to more effectively address key public policy issues concerning the structuring of financing and financial aid to achieve goals of access to quality higher education. This paper describes how states were selected, presents state objectives, and highlights a number of milestones and accomplishments, focusing on how states: engaged key leadership, developed new policy, sustained a discussion and laid the ground for further work, and commissioned special studies. For each case study, the paper presents information on state policy context, state actions, and observations. (SM)

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CHANGING DIRECTION:

Integrating Higher Education
Financial Aid and Financing Policies

Integrating Financial Aid and Financial Policies: Case Studies from Five States

August 2003

ED 481 763

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WICHE

Supported by a grant from Lumina Foundation for Education

Integrating Financial Aid and Financing Policies: Case Studies from Five States

August 2003

Julie Davis Bell
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Supported by a grant from Lumina Foundation for Education

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WICHE

Western Interstate Commission for Higher Education

The Western Interstate Commission for Higher Education (WICHE) is a public, interstate agency established to promote and facilitate resource sharing, collaboration, and cooperative planning among the Western states and their colleges and universities. Member states are:

Alaska	Idaho	Oregon
Arizona	Montana	South Dakota
California	Nevada	Utah
Colorado	New Mexico	Washington
Hawaii	North Dakota	Wyoming

WICHE's broad objectives are to:

- Strengthen educational opportunities for students through expanded access to programs,
- Assist policymakers in dealing with higher education and human resource issues through research and analysis, and
- Foster cooperative planning, especially that which targets the sharing of resources.

This publication was prepared by the Policy Analysis and Research Unit, which is involved in the research, analysis, and reporting of information on public policy issues of concern in the WICHE states.

This report is available free of charge online at http://wiche.edu/Policy/Changing_Direction/Pubs.htm.

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Foreword

States and their institutions of higher education moved into the 21st century on a wave of high enrollments, strong state fiscal support, and a growing recognition that the need for higher education was imperative if most of their citizens were to enjoy greater prosperity and the benefits of social mobility. It did not take long, however, for shifting state economies to cast dark clouds on this picture. Declining state revenues saw most states turning to higher tuition increases to offset smaller or level funding in state appropriations. These decisions were not made easily; boards and legislatures came to their painful conclusions often only after heated discussions.

What did not also occur in most states during these conversations was a dialogue where financial aid, tuition, and financing policies were considered together, rather than as isolated issues. Double-digit tuition increases rarely benefited from accompanying discussion about how to protect access for low-income students through financial aid policies. States, for the most part, continued a pattern they had been using for decades: once tuition and appropriations were determined, policymakers looked at the budget dust to determine how much was left over for financial aid.

Changing Direction was designed to help states turn that age-old process on its head. To do that, we needed to work closely with a few states interested in going down this untested road. Five states—Arizona, Connecticut, Florida, Missouri, and Oregon—made that commitment. This publication synthesizes some of the results of their work and lessons learned in the process. Individual state reports look more closely at the goals, strategies, processes, and activities from these states.

The *Changing Direction* project is a national initiative designed to help states and key constituents examine how to structure financial aid and financing policies and practices to maximize participation, access, and success for all students and to promote more informed decision-making on issues surrounding financial aid and financing in higher education. *Changing Direction* serves policymakers in the legislative and executive branches of state government and their staffs, higher education researchers, state executive agencies, governing and coordinating boards, educators, college and university leaders, and business and corporate leaders. This report is one of a series of documents produced to foster greater understanding of key issues surrounding a stronger alignment of financial aid and financing policies. Four complementary reports are:

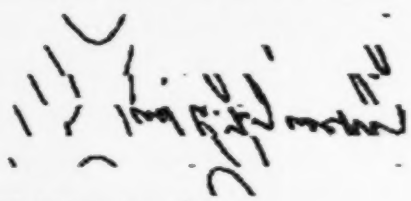
- ***Policies in Sync: Appropriations, Tuition, and Financial Aid for Higher Education*** – A set of four commissioned papers that look into a system comprised of integrated financial aid and financing policies.
- ***Linking Tuition and Financial Aid Policy: The State Legislative Perspective*** – A summary of survey responses from legislative leaders in the U.S. on the degree

of alignment between tuition and financial aid policymaking, their role in the policymaking process, and their degree of satisfaction with the process.

- ***Tuition and Fees Policies in the Nation's Public Community Colleges*** - An analysis of tuition and fees policies among public community colleges in the U.S. with implications for public policy.
- ***Informing Public Policy: Financial Aid and Student Persistence*** by Dr. Donald Heller, Penn State University - A study of trends in the awarding of institutional and state-funded financial aid to undergraduates in public institutions, including an analysis of the relationship between institutionally-awarded and state-funded financial aid and persistence and policy implications.

The *Changing Direction* project has been successful in large part because of WICHE's collaboration with the American Council on Education (ACE) and the State Higher Education Executive Officers (SHEEO). ACE's Center for Policy Analysis and SHEEO have long-standing reputations for high-quality work on a wide range of issues, with a history of specializing in financial aid and financing issues. WICHE and its partners also collaborate closely with the national Conference of State Legislatures (NCSL), a national, bipartisan organization that brings even more visibility to the project and provides additional expertise concerning the state legislative role in creating integrated higher education policy. The cooperation among the organizations has been especially valuable to this project.

WICHE is most grateful to Lumina Foundation for Education, a private, independent foundation that strives to help people reach their potential by expanding access and success in education beyond high school, for its generous support of this project. Without the Foundation's assistance and encouragement, this project would not be possible.



David Longanecker
Executive Director
Western Interstate Commission for Higher Education

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Executive Summary

This report is a collection of five state case studies comprising a major component of the first phase of a project titled *Changing Direction: Integrating Higher Education Financial Aid and Financing Policies*. In November 2001, with funding support from Lumina Foundation for Education, the Western Interstate Commission for Higher Education (WICHE), in partnership with the American Council on Education (ACE), the State Higher Education Executive Officers (SHEEO), and the National Conference of State Legislatures (NCSL), initiated the project to explore state-level strategies to better align financing and financial aid policies and support more informed decision making on issues surrounding financial aid and financing in higher education.

These case studies of Arizona, Connecticut, Florida, Missouri, and Oregon were designed to help equip policymakers and higher education leaders from all sectors more effectively address key public policy issues concerning the structuring of financing and financial aid to achieve goals of access to quality higher education. The overarching question the project hoped to address through the case studies and other project activities was: How can policymakers at all levels - most particularly those at the state level - more effectively integrate tuition, financial aid, and appropriations policies in ways that promote student participation and completion?
The results of the states' work are linked back to the overall goals and objectives of the *Changing Direction* project in an effort to illustrate how the integration of public policies around financing and financial aid might be approached. The overview chapter highlights a number of milestones and accomplishments:

- **States engaged key leadership.** Two complementary goals central to the larger *Changing Direction* project, and that have carried into the technical assistance states' work, are to expand upon the community of well-informed policy leaders on higher education issues and to equip them to address more effectively key public policy issues concerning the structure of financing and financial aid to achieve access. Most of the states in this cohort of technical assistance states reported success in this area.
- **States developed new policy.** By working closely with a few states, project staff hoped to observe a conscious effort to talk about issues of tuition and financial aid and appropriations in a more holistic manner, as opposed to the isolated conversations that historically characterize these policy conversations. Furthermore, staff anticipated that these states would begin moving toward more integrated public policies. The first of these expectations was observed in Arizona, Connecticut, and Oregon; evidence of the second appeared in Arizona and Connecticut.
- **States sustained a discussion and laid the ground for further work.** All states experienced success in not only initiating

but sustaining a discussion around the integration of state policies. As the initial state technical assistance period drew to an end in April 2003, it was clear to all of the case study authors that the states were continuing their work and planning for post-2003 session and pre-2004 session activities.

- **States commissioned special studies.** All of the five states participated in the data audit conducted by the national SHEEO office as a corollary activity supported by the *Changing Direction* grant. The results of that work documented the policy and operational resources in place to support better finance, financial aid, and pricing decisions. Additionally, a few of the technical assistance states elected to take a more in-depth look at the kinds of tuition, financial aid, and appropriations information they had and perhaps augment that information.

One of the central questions the *Changing Direction* case study authors asked in the final analysis as state observers is: within the context of the state, how important were the achievements of the technical assistance states? Change is relative, and there is no attempt here to try to compare the states on the kind or degree of change that the case study authors observed. As a compilation of insights, however, the introductory synthesis and the individual state reports contain authors' and state coordinators' observations that shed light on the additional benefit of the year's work in the states.

The *Changing Direction* project has clearly provided an important platform in these five states for a new conversation - one that helps policymakers and higher education leaders think creatively and constructively about the relationships among appropriations, tuition, and financial. Most particularly, they are looking at these issues in a more holistic, coordinated manner than they have in the past. The individual state case study reports that follow provide much more detail and rich narrative on developments in the states. Updates on the states' activities as they continue their work toward *Changing Direction* will be posted on the project's Web pages at http://wiche.edu/Policy/Changing_Direction/index.htm.

Five Case Studies: An Overview

This report is a collection of five case studies comprising a major component of the first phase of a project titled *Changing Direction: Integrating Higher Education Financial Aid and Financing Policies*. In November 2001, with funding support from Lumina Foundation for Education, the Western Interstate Commission for Higher Education (WICHE), in partnership with the American Council on Education, the State Higher Education Executive Officers (SHEEO), and the National Conference of State Legislatures (NCSL), initiated the project to explore state-level strategies to better align financing and financial aid policies and support more informed decision making on issues surrounding financial aid and financing in higher education. These case studies were designed to help equip policymakers and higher education leaders from all sectors more effectively address key public policy issues concerning the structuring of financing and financial aid to achieve goals of access to quality higher education. The overarching question the project hoped to address through the case studies and other project activities was: How can policymakers at all levels – most particularly those at the state level – more effectively integrate tuition, financial aid, and appropriations policies in ways that promote student participation and completion?

This opening chapter is an attempt to draw together some of the overriding ideas and expectations behind the major initiative in *Changing Direction* to promote better policy alignment by working closely with a handful of states that were interested in the project's goals. This overview is a synthesis; it draws on the rich detail that follows in the chapters for each of the state case study reports. In the following pages, the results of the states' work is linked back to the overall goals and objectives of the *Changing Direction* project in an effort to illustrate how the integration of public policies around financing and financial aid might be approached. The five states – Arizona, Connecticut, Florida, Missouri, and Oregon – that generously agreed to take on this work are not models; but they do demonstrate different approaches that are grounded in their very different higher education governance structures as well as their very individual demographic and political environments. A major objective of this project is to provide other states with guidance and information on strategies they might consider in their efforts to increase the participation, access, and success of all students in higher education.

The Selection Process

In April 2002, WICHE sent a Call for Participation to SHEEOs in the 50 states, describing the project and inviting their participation in a small cohort of technical assistance states. States were asked to commit to participation during the first phase (November 2001 to April 2003) of the project with the understanding that involvement in Phase 2 (contingent upon continuation funding) was highly recommended in order to have time

to more fully develop the planning and groundwork achieved in Phase 1. As the grantee for this project, WICHE committed to provide technical support, advice, and staff as needed to promote a successful experience for each selected state. From the 17 state applications, the partner organizations selected Arizona, Connecticut, Florida, Missouri, and Oregon. These states were notified and began shaping their state work plans in May 2002. Each state SHEEO identified a coordinator for this project; the coordinator was either the fiscal officer or the academic officer in the state higher education agency.

Several factors went into the selection of this initial cohort of technical assistance states. As a national project, *Changing Direction* was designed to be responsive to concerns in all regions of the country and to reflect a variety of postsecondary education structures. To that end, states were chosen from each geographic region with both coordinating and governing board states represented, as were states with multiple educational sectors (e.g., public and private not-for-profit institutions, community colleges, four-year comprehensive, and research universities). Project staff also wanted to ensure that other characteristics, such as state size, demographic composition, and growth factors, were as varied as possible.

State Objectives

Each technical assistance state identified its objectives for Phase 1 of the project (May 2002 through April 2003). These are plans that the states outlined at the beginning of their work on *Changing Direction*. In two states - Missouri and Oregon - critical changes in the leadership of the SHEEO offices dramatically altered the plans of these states; these cases are discussed later in this report.

During Phase 1 of the project, Arizona planned to convene key state leaders from education, government, and business; identify desired outcomes; examine successful models that use a more integrated approach; and draft a strategic plan for coordinating polices and decision-making processes in ways that would help increase affordability, participation, and completion of higher education.

Phase 1 of Connecticut's project would see the formation of a state leadership group to convene educational discussion sessions to look at current financing practices and major drivers of cost and review basic principles underlying the state's tuition, fee, and student aid policies. The result of this phase would be interim recommendations on modifications to policies for FY 2003-2005 budget development. In the second phase, Connecticut wanted to provide an in-depth examination of factors contributing to the growth in the costs of higher education, develop recommendations on strategies for cost containment, thoroughly review existing student aid programs and distribution models, develop additional policy modifications, and attain state policy leadership endorsement of and commitment to a more cohesive tuition and student aid policy that ensures affordable access for Connecticut residents.

With the assistance of the *Changing Direction* grant, Florida intended to build on existing initiatives by developing policy recommendations for inclusion in the state's long-range master plan. Staff and consultant

activities would include the design of a comprehensive inventory of financial aid resources available at all public and private institutions in the state; analysis of the impact of state aid levels on student matriculation; and analysis of changes in high school course taking and postsecondary enrollment activity since the inception of the state's merit-based scholarship program.

Faced with momentous economic, demographic, and political challenges that jeopardize financial access to the state's system of higher education, Missouri intended to use the *Changing Direction* project to work with policymakers in addressing the critical issues of college affordability and access in the state. Phase 1 was to include a comprehensive inventory and analysis of student aid in the state to look at the impact of aid on retention, performance, and completion. Also during this first year, Missouri planned to create or link to a Web-based clearinghouse on relevant policy developments and develop several sets of strategies for increasing need-based aid, for improving outreach and services to groups not currently served or not served well, and for improving the college participation and completion rates of at-risk students.

Working with recent and ongoing policy activity on governance and tuition pricing, in Phase 1 Oregon planned to establish an environment for stakeholders to focus on developing a vision of Oregon and the policy and resources needed to redesign the decision structures that build on previous work. Activities were to include reporting on the decision-making process and desired benchmarks for areas requiring restructuring, examining best practices in state higher education finance and financial aid, and developing a proposal for a demonstration project in Phase 2 that describes the method or model by which restructuring would occur.

Accomplishments and Milestones

As the individual state case study reports suggest, most of these plans were realized, some completely and some in part. In Missouri and Oregon, external forces intervened to change the political dynamics just as the project was getting underway. Early in the technical assistance period, the SHEEOs in Missouri and Oregon resigned their positions. Fortunately, the new SHEEOs agreed to continue the state's participation in the *Changing Direction* project, but as the state transitioned into new leadership, the project plans were placed on hold. Additionally, higher education in all states has been reeling from the severe budget constraints and reduced revenues. In some states, the very difficult economic conditions served as an additional impetus for the complex and thorny conversations around financing and financial aid alignment that need to occur within the context of reduced resources. An additional concern for the states was how to effectively broaden the conversation and be inclusive for all sectors - two-year and four-year as well as public and private not-for-profits.

Nonetheless, case study authors and state coordinators have noted a number of milestones and accomplishments.

- **States engaged key leadership at the board level, within the governor's office, and among legislators.**
  Two complementary goals central to the larger *Changing Direction* project, and that have carried into the technical assistance

states' work, are to expand upon the community of well-informed policy leaders on higher education issues and to equip them to address more effectively key public policy issues concerning the structure of financing and financial aid to achieve access. Most of the states in this cohort of technical assistance states reported success in this area. In Arizona, the chairman of the board of regents made this project his priority and involved regents in a year-long effort to bring about change. Additionally, Governor Janet Napolitano endorsed the board's ideas generally and the concept of a state-funded, need-based financial aid program in particular. Connecticut reported the involvement of key legislative leadership and interest from Governor John Rowland's office as the Department of Higher Education carried out the *Changing Direction* activities. Missouri eventually linked its work to a newly formed Commission on the Future of Higher Education created by Governor Bob Holden. Oregon's state-level roundtable, established to conduct the project, includes institutional presidents and board members.

- **States developed new policy.**
By working closely with a few states, project staff hoped to observe a conscious effort to talk about issues of tuition, financial aid, and appropriations in a more holistic manner, as opposed to the isolated conversations that historically characterize these policy conversations. Furthermore, staff anticipated that these states would begin moving toward more integrated public policies. The first of these expectations was observed in Arizona, Connecticut, and Oregon; evidence of the second appeared in Arizona and Connecticut.

The Arizona Board of Regents, a governing board, made significant changes to board policy and created a policy environment within which institutions have more flexibility to differentiate their missions and the tools to implement change in management practices. The board also made a sea change in tuition policy by reversing decades of efforts to "remain as nearly free as possible." A key piece of the regents' success in raising tuition by 39 percent was the commitment from the institutions to set aside 14 percent of the tuition revenue generated by this action for need-based aid.

Connecticut saw legislation introduced on two issues. One bill would have required the Board of Governors for Higher Education to review and approve all tuition and fee increases in excess of current rates of inflation. While there was extended debate on this issue, heavy lobbying by the public institutions doomed the bill before it moved out of committee. A second bill that emerged would have required the Department of Higher Education to establish a statewide student financial aid database. Although the measure failed, the Appropriations Committee included funds in the department's budget to establish the database.

In Florida, a Higher Education Funding Advisory Council (HEFAC), created by the State Board of Education, met throughout the summer and fall of 2002, and recommended legislation intended to result

in better alignment of tuition and financial aid policies, given current fiscal realities. The legislative session ended before passage of the package containing the recommendations. However, several issues likely will be addressed as part of the appropriations process, which must be completed in a special session prior to July 1, 2003. A continuing priority is that all state aid recipients should be required to complete the Free Application for Federal Student Aid (FAFSA), which would significantly aid future research efforts.

In an unusual development on financial aid, Oregon Governor Ted Kulongoski has introduced the idea of placing financial aid for low-income students into the state's constitution. As noted earlier in this section, Oregon got a late start in its work, but once the state's roundtable was convened, its agenda clearly pointed toward the need to work toward policy alignment.

- **States sustained a discussion and laid the ground for further work.**
  All states experienced success in not only initiating but sustaining a discussion around the integration of state policies. As the initial state technical assistance period drew to an end in April 2003, it was clear to all of the case study authors that the states were continuing their work and planning for post-2003 session and pre-2004 session activities. Even in a state like Arizona, which saw remarkable success during the very short start-up period between May 2002 and April 2003, discussions currently are underway to establish a state-funded, need-based financial aid program with a corporate match. Talks with the new governor, key legislators, and a local community foundation have resulted in a fund-raising campaign and work toward identification of a dedicated state funding source. Efforts to pass legislation to establish the program will begin with the 2005 legislative session.

  Connecticut, another state that reported legislative activity, reports major achievement in bringing issues of tuition and fee policy and the role of higher education in ensuring access and affordability to the state level. The initial meetings provided important opportunity for state leaders to raise concerns and learn more about current financing and student financial aid policy.

  Florida used the Phase 1 period to focus on financial aid issues and to begin shaping issues for the state's first Master Plan for K-20 Education. As part of this effort, the state's *Changing Direction* leaders drew on the project's publication, "Policies in Sync: Appropriations, Tuition, and Financial Aid for Higher Education," and the author of the lead article in that report to identify critical factors and issues to consider in the design of an overall framework for finance policy. This work will be instrumental over the next year as the state shapes the K-20 master plan.

  Missouri, although late in developing the local project, was successful in placing the concept of "shared responsibility" on the public policy agenda for financing the state's system of higher education. This is a new conversation for policymakers in the state. Associated with that development is

increased understanding by policy leaders of the role state student financial aid can have in financing institutional operations. Additionally, the state reports there is greater awareness that different results can be achieved, depending on how state appropriations flow to the state's institutions. Missouri also decided to link its work to Governor Holden's Commission on the Future of Higher Education in order to sustain the dialogue on these issues.

Oregon has used a state roundtable as the vehicle to establish and maintain discourse around key policy concerns with tuition and financial aid. By including representation from the business sector as well as all sectors of higher education, Oregon has assembled a broad-based, highly visible, and influential group of individuals to help shape and guide the discourse with policymakers. This was a particularly strategic move, given the arrival of a new chancellor for the Oregon University System, where this project is housed, and the inauguration of a new governor. Roundtable participants expect to have greater opportunity to link more formally with the governor and legislators this coming year.

States commissioned special studies. All of the five states participated in the data audit conducted by the national SHEEO office as a corollary activity supported by the *Changing Direction* grant. The results of that work documented the policy and operational resources in place to support better finance, financial aid, and pricing decisions. Additionally, a few of the technical assistance states elected to take a more in-depth look at the kinds of tuition, financial aid, and appropriations information they had and perhaps augment that information. Florida took this approach by commissioning a financial aid leveraging analysis to assess the progress and efficiency of the state's three major financial aid programs (Bright Futures, Florida Student Assistance Grant, and Florida Resident Access Grant). Florida also completed a study of the amounts and types of financial aid available to students between 1997 and 2001, providing a better understanding of the relative contribution made by various parties that share responsibility for providing affordable and accessible postsecondary education. Connecticut took a slightly different tactic and focused on the need to establish a statewide student financial aid database. The legislature provided start-up funding for the database.

Value Added and a Look to the Future for Case Study States

One of the central questions the *Changing Direction* case study authors asked in the final analysis as state observers was: within the context of the state, how important were the achievements of the technical assistance states? Change is relative, and there is no attempt here to try to compare the states on the kind or degree of change that the case study authors observed. As a compilation of insights from the individual state studies, however, this introductory synthesis points out a few of the authors' and state coordinators' observations that shed light on the additional benefit of the year's work in the states.

Arizona's case study author notes that an outside observer might not see Arizona's

Changing Directions (a slightly different project name to reflect the broader scope of Arizona's project) as all that radical. From Arizona's perspective, however, the state is *changing directions*, substantially and doing so *appropriately* and *intentionally*. As noted by the state coordinator, Arizona created a radically different statewide policy environment for setting tuition and awarding need-based financial aid, and groundwork has been laid for a new state-funded, need-based financial aid program. Arizona policies were disjointed, as were its policymakers. No one thought of appropriations, tuition, and financial aid policy as an integrated whole. Although Arizona's approach is still an initiative in process, the case study author observed that much has already changed. Every Regent now thinks almost automatically of the three financing policies - state appropriations for institutional support, tuition, and financial aid - as an integrated whole, and understands that neither quality nor access can be maximized without blending these three together. The Arizona press has been remarkably supportive of the changes, even in the face of proposed substantial tuition increases. The new governor has been receptive to the changes, despite inheriting a board appointed almost entirely by her predecessor. The presidents of the three universities have taken bold steps to define unique and complementary missions for their institutions. Despite this progress, however, this initiative faces continuing challenges within the state. The disjointed governance structure, particularly with the recent decentralization of the community colleges, makes it difficult for the Board of Regents to present a comprehensive plan for postsecondary education in Arizona. The extreme fiscal distress facing the state makes it difficult to sustain the vision for *changing directions*, and the relationship with the legislature remains tenuous.

Connecticut considered one of its greatest accomplishments the increased visibility of issues around tuition and fee policy and the role of public higher education in ensuring access and affordability. As described by the case study author, the public institutions operate with a considerable amount of autonomy, which they guard tenaciously; the Connecticut Department of Higher Education has little direct authority over the institutions. Despite this and other structural constraints, the Board of Governors for Higher Education established a special Tuition Policy Review Committee to conduct a review of its tuition and fee policy, and the Connecticut Department of Higher Education thus achieved the first several goals that it set for Phase 1. The Committee is gathering information, but it also plans to move ahead with drafting recommendations on changes to the current tuition policy. At this point, it appears that the Connecticut Department of Higher Education, the Board of Governors, and the Tuition Policy Review Committee will face stiff opposition from the constituent units (higher education institutions) if any of their recommendations impinge on the independence these institutions now enjoy. A key factor may be the extent to which other key policy actors - including the governor - buy into the committee's work and adopt its agenda.

Florida joined the *Changing Direction* project while a very fluid transition process was underway as the state was moving from a multiboard governance structure for higher education to a single K-20 board encompassing both K-12 and higher education. The added

benefit for the state was reflected primarily in the ability to target issues around financial aid and tuition with special studies. As the case study author noted, Florida has great ambitions for improving the capacity of its citizens to be educationally and economically successful. It also seeks to provide fair access to educational opportunity and to reward and motivate students for educational achievement. And it wants to achieve all of these without excessive taxation or abandoning entirely the state's tradition of low-priced public education. Florida is well-positioned to move ahead in a process of formulating and implementing strategies for pursuing its goals for postsecondary education. In some respects, the process used in the past two years has been ideal for engaging these difficult issues. At the same time, it would be difficult to overestimate the challenges still ahead. The gap between Florida's aspirations and its resources is significant, and the internal conflicts among policy values and opportunities are substantial. In Florida, as in every state, it is quite difficult to develop a political consensus on measures to increase taxes or change the state revenue structure. It seems unlikely that a grand solution will be found to resolve these conflicts among resources, goals, values, and opportunities. More likely a series of compromises will emerge over time to help resolve policy dilemmas. If the ultimate vision of widespread educational success and quality is held firmly in mind, a continuing process of goal setting, analysis, and public engagement will help the state make important progress toward its goals.

Four major events occurring after Missouri's initial *Changing Direction* plan was designed have had significantly impacted both the focus and the implementation of the state's work. First, record turnover occurred among legislators in the November 2002 elections, resulting in a new cadre of legislators and legislative leaders with little history and experience. Next, Kala Stroup, the long-time leader of the Missouri Coordinating Board for Higher Education, resigned in mid-2002; Quentin Wilson served as acting interim commissioner and was appointed as commissioner in November 2002. Then, in January 2003, Governor Bob Holden established the Commission on the Future of Higher Education, a statewide advisory group to address the challenges facing higher education and to improve the link between higher education and economic growth in Missouri. Finally, Missouri was selected as a participant in a new initiative, the National Collaborative for Postsecondary Education Policy, examining serious reform of postsecondary education.

With the creation of the Commission on the Future of Higher Education and its focus on obtaining consensus and cooperation for a state higher education policy agenda, it became clear that the Commission would provide a framework and structure to continue the work of *Changing Direction*. The high visibility of the Commission, inclusion of legislators, and the timing of its formation, makes it a perfect place to shift the work initially envisioned in *Changing Direction*. The Missouri Department of Higher Education and the Coordinating Board for Higher Education will staff the Commission. While the state sees much progress in placing the concept of "shared responsibility" on the public policy agenda for financing the state's system of higher education, it also recognizes that what has not been accomplished to date is establishing an agreement about what share of that cost should be borne by students and their

families and the state. Some form of public policy will result, but not necessarily policy based primarily on informed discussion and debate about how best to achieve desired results for higher education and how to fund higher education to achieve those results.

Oregon saw the value of *Changing Direction* in providing an environment in which stakeholders could focus on the development of a vision of Oregon and the state policy and resources needed to redesign the decision structures. Using a state roundtable strategy to hold intensive discussions about state policy and how to best serve the public interest was a necessary first step. As the project coordinator noted, this has been a time of environmental turbulence and extreme financial pressures in Oregon: five special legislative sessions in 2002; voter approval to shift resources from need-based assistance for college students to K-12 schools; negative taxpayer vote for increased support for all services that resulted in substantial midyear tuition surcharges; and revenue projections that continue to decline. Since the legislature meets biennially and was in session in 2003, there was limited opportunity in this session to achieve all of their objectives toward improving the decision structure. Short-term solutions on financial aid funding and overall financing of higher education may be the best the roundtable can hope for in this session. Nonetheless, the 18 months before the 2005-2007 biennium will be critical if the group is to successfully establish the playing field and develop ground rules for achieving the comprehensive, long-term objectives of stable, predictable, and sustainable funding with sufficient financial aid to protect access for Oregon residents. During its first year, the project has gained significant traction in the state and developed momentum that should sustain it through the very difficult months - perhaps years - needed to bring about the kind of change envisioned.

The *Changing Direction* project has clearly provided an important platform in these five states for a new conversation - one that helps policymakers and higher education leaders think creatively and constructively about the relationships among appropriations, tuition, and financial aid. Most particularly, they are looking at these issues in a more holistic, coordinated manner than they have in the past. The individual state case study reports that follow provide much more detail and rich narrative on developments in the states. Updates on the states' activities as they continue their work toward *Changing Direction* will be posted on the project's Web pages at http://wiche.edu/Policy/Changing_Direction/index.htm.

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Arizona Case Study

David A. Longanecker

State Policy Context

A number of circumstances make Arizona particularly ripe for *changing the direction* in which its public higher education is funded.

- The state faces a huge impending increase in the demand for higher education, with simple demographics increasing the number of prospective students by more than 40 percent over this decade. Desired increases in participation and success could well bolster this demand by another 25 percent.
- Because many of these new students will come from populations that Arizona higher education has traditionally not served well – the economically disadvantaged, communities of color, and nontraditional populations – the state's higher education system must change its way of doing business if it is going to address this huge increase successfully.
- It is highly unlikely that the state will be able or willing to provide funding equivalent to past funding on a per student basis. Arizona is a fiscally conservative state that has always been frugal in its support of higher education. Today, the state faces substantial budget deficits, which are requiring reductions, not increases, in state support. This year, FY 2003, funding for higher education was essentially frozen, following a 2.8 percent cut in funding last year.

So Arizona faces the perfect storm from three cresting waves: unprecedented increase in demand, an increasingly difficult-to-serve clientele, and no money to serve these new students.

The way in which Arizona has organized its system of higher education presents a challenge as well. Although Arizona is well known as the home of America's largest for-profit university, the University of Phoenix, only a small share of the state's higher education students enroll in nonpublic institutions. Most University of Phoenix students enroll elsewhere in the U.S., and the state has only a few small private colleges. As a result, the burden falls disproportionately on the public sector to provide broad access to higher education in the state.

Until recently, the state's higher education institutions were organized under two statewide boards: the Arizona Board of Regents (ABOR), which governs the three public universities, and the Arizona Community College Board, which coordinated the activities of the state's broadly accessible and highly regarded community colleges. The 2002 Arizona legislature, however, abolished the state board for community colleges, so these colleges now operate separately under 10 separate local boards. Developing an integrated approach to addressing the state's needs was difficult with just two boards; it is an even greater challenge with the newly decentralized community college governance structure. Local boards are much

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more focused on local needs than on statewide concerns.

Arizona's governance structure has helped shape the state's disjointed funding structure for higher education. For the three state universities, the legislature provides an appropriation predicated on enrollment and historical funding patterns to ABOR, which has then traditionally allocated these funds to the institutions via a formula that closely parallels the rules governing the original systemwide appropriation. Until last year, state funding for the community colleges followed a similar process, though now each local board makes a separate request. The boards have the authority to establish tuition. In the past, they have traditionally waited until after the legislature has adjourned to set tuition, in part to avoid legislative retribution. Truth be told, however, even though the boards set tuition, they have always been sensitive to the interest of state government in keeping the price low and have thus traditionally taken into account what they perceive to be the legislature's and governor's interest in tuition policy.

Financial aid has been an afterthought in Arizona state finance policy. The state provides only paltry support for financial aid, ranking amongst the lowest nationally. This is not unusual in states with statewide governing boards, where the governing board is often given primary responsibility for financial aid as well as instructional support. The Arizona Board of Regents requires that the institutions attend to financial aid through the resources they received from the state and via tuition revenue. In total, however, financial aid support in Arizona falls well below national averages. This reflects the Western tradition of presuming that low-tuition is the best avenue to college affordability, with relatively less focus on need-based aid than exists throughout the rest of the U.S. As a result, Arizona higher education receives, on average, lower revenue per student from the state, lower revenue per student from tuition, and lower financial aid per student for need-based financial aid. Compounding these relatively low levels of support, these three key funding policies have not been intentionally coordinated in a fashion that would maximize their effectiveness in supporting broad access to high-quality education for the citizens of Arizona.

It was within this context that Arizona chose to *change directions*. Three conditions appear to have driven Arizona to this action.

- First, though the demographic trends had been emerging for some time, the impending impact on higher education became more readily apparent over the past couple of years. In 2002, The Morrison Institute, a public policy institute associated with Arizona State University, prepared a report entitled *Five Shoes Dropping* that documented the negative economic impact on Arizona if the state fails to educate well the coming demographic bulge. This report helped transformed the argument from a social justice issue to one of economic viability, thus capturing the attention of many more policymakers in the state.
- Second, the impending fiscal crisis began to hit home. In the summer of 2002, the Board of Regents, on a closely contested vote, rejected the tuition increase proposed by its staff. The Board leadership felt that, absent a cogent approach to financial aid, further increases in tuition would erode access.

This set the stage for staff to bring forth ideas about how better to coordinate all parts of the finance package.

- Third, new life in the Board of Regents and in the executive level staff provided an avenue for looking at issues differently. The person who assumed the chair of the Board of Regents had led the opposition to the increase in tuition but made a commitment to finding a better way to finance the system. The remaining regents, including student regents, came together constructively to work with the new chair to look forward rather than backward. Additionally, the Board staff - headed by a relatively new executive director with a substantial background in public finance, and a cadre of three institutional presidents, two of whom were quite new - approached the task with a willingness to consider the whole and not just their parts.

This combination led to *changing directions* in Arizona, where a clear disconnect between the impending demand for services and the capacity to serve this demand prompted the Board of Regents to recognize that change was needed and to accept responsibility for leading this change.

State Actions

In Arizona, the Board of Regents became the agent of change. Under the leadership of Jack Jewett, ABOR chair, and Linda Blessing, ABOR executive director, the Board developed both a vision for future funding of higher education in Arizona and a process for gaining broad acceptance and ownership of this vision amongst other critical "stakeholders" in Arizona higher education. The plan began with an ABOR retreat in August 2002. The retreat first focused on the major issues that future funding policies would have to address. These issues included:

- An imperative that Arizona find a way to sustain access and improve student success in the future, despite the financial challenges facing the state.
- A recognition that students would have to pay for much of the increasing costs because state resources would be limited.
- Further recognition that the first two points could not be achieved without much more substantial attention at the state and ABOR level to assuring that adequate need-based financial assistance would be available.
- An appreciation that the institutions would be better able to address these issues if they had greater autonomy to operate within a "coordinated" system. This autonomy was presumed to include greater autonomy in management flexibility, academic planning (within reason) and tuition setting authority at the institutional level. The new president of Arizona State University (ASU), Michael Crow, contributed substantially to this discussion by introducing the concept of moving from a traditional *state agency model* to an *enterprise model*, which would have the Board provide policy guidelines and the institutions manage these guidelines while being held accountable by the Board for achieving clearly established state goals.

The retreat then focused on developing a process by which it could actualize a reasoned response to these issues. This plan included:

- Establishing a timetable in which each of the institutions and the Board's executive staff could develop specific strategies to address each of these issues. It was felt that this plan must be completed in time to be presented to the 2003 legislature and new governor, which meant that there were only months left to complete the work.
- Identifying specific strategies for working with other stakeholders, the most significant of whom included: the new governor, the legislature, the business community, the community colleges, and the citizens of the state.

From this framework, the institutions began developing specific proposals for moving this agenda forward, and the Board's executive staff began developing state-level frameworks for guidelines and accountability. The Board continued its work, with monthly meetings focused on developing the policy framework for moving the agenda forward. Included were numerous visits to editorial boards, attended by Board leadership and institutional leaders, in which the general outline of a well-integrated set of new approaches to financing higher education - allocation of appropriations, tuition, and financial aid - was presented.

In October 2002, the Board received proposals from the three institutions, which included individual plans and their collective vision for integrating the three general finance policies into a bold new plan for Arizona. This included: building the case for state financial support, including state support for financial aid; a substantial increase in tuition ($1,000, approximately a 40 percent increase) to provided needed instructional support; and a plan developed by Arizona State University and the University of Arizona to assure adequate financial assistance to the most needy students in the event that the state was unable or unwilling to meet this obligation itself.

Observations

An outside observer might not see Arizona's *Changing Direction* project as all that radical. After all, it will remain a modestly funded system, with still relatively modest tuition (in the lowest third nationally), without a robust state financial aid program.

From the Arizona perspective, however, they are *changing direction* substantially. More importantly, though, they are doing so *appropriately* and *intentionally*. Like many states, Arizona in the past arrived at its policies more by accident and tradition than through substantial policy intent.

- Arizona was a low tuition state because it had always been a low-tuition state. Tuition, though it was a critical source of income was viewed more as a gap-filler than an integral part of the revenue structure for institutions.
- Financial aid was an afterthought, in part because no stakeholder had ever really taken ownership of it and helped others understand its importance to assuring access; low tuition was seen as the access tool, not financial aid.
- Arizona policies were disjointed, as were its policymakers. No one thought of appropriations, tuition, and financial policy as an integrated whole. The governor had her ideas about higher education, as did the legislature, as did the higher education

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